

## Will Supply Management Keep Canada Out of the Trans-Pacific Partnership?

By Dan Schrier

Canada has expressed interest in joining the Trans-Pacific Partnership (TPP), a potential free trade zone that would be the largest in the world if the countries involved can come to an agreement. The TPP originally began as an agreement between Brunei Darussalam, Chile, New Zealand and Singapore. It expanded to include the United States, Australia, Malaysia, Peru and Vietnam. In November, Japan, Canada and Mexico also expressed interest in joining.

The inclusion of Japan, in particular, has made the TPP a priority for Canada. If it comes to fruition, the TPP could end up superseding NAFTA in a manner similar to how NAFTA supplanted the Canada-U.S. Free Trade Agreement.

Canada's earlier reluctance to be involved in the TPP was at least partially due to the desire to continue to protect the supply management system that governs Canada's dairy, egg and poultry sectors. Prime Minister Harper initially gave the impression that supply management would be on the table in the negotiations, but the government has since backed off that stance and is standing firm in its support of the system, insisting that it will not give up protection for the dairy, egg and poultry sectors as part of a TPP agreement. Prime Minister Harper stated that, "It's always our intention when we go to the table to make sure we...protect and promote

the interests of all Canadian sectors, including supply management."<sup>1</sup>

The federal government insists that Canada need not abandon supply management as a condition of joining the TPP, but New Zealand Trade Minister Tim Groser has questioned that approach, suggesting that "[Supply management] is completely inconsistent with tariff elimination,"<sup>2</sup> which is what the other countries already involved in the talks have committed to doing. Groser indicated that Canada, Mexico and Japan will all have to be carefully vetted before admittance to the TPP is granted and that there has to be a willingness to include even "sensitive" areas in the negotiations. He suggested that "When our leaders said 'eliminate' tariffs and other direct barriers to imports, they meant it."

Groser's statements do not appear to leave much room for a system that levies tariffs of, for example, 298.5% on imports of butter, or 238.0% on chicken.<sup>3</sup>

Failure to gain entry into the TPP could have serious economic consequences for Canada. In 2010, approximately 80% of Canada's goods exports were shipped to the other countries in the TPP (including Japan and Mexico). In 2009,

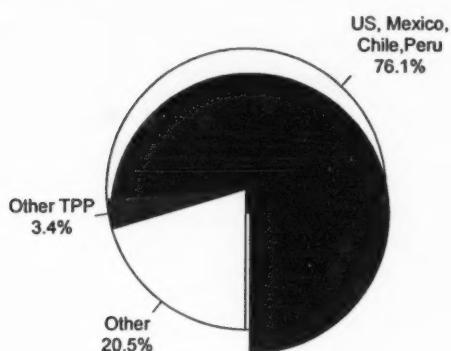
<sup>1</sup> As quoted in "Asia-Pacific trade deal won't hit supply management: Harper," posted on Canada.com, November 15, 2011.

<sup>2</sup> As quoted in: Chase, Steven. "Harper's stand on tariff walls disputed," *The Globe and Mail*, November 24, 2011, p. A4.

<sup>3</sup> Canada Border Services Agency, *Departmental Consolidation of the 2011 Customs Tariff*.

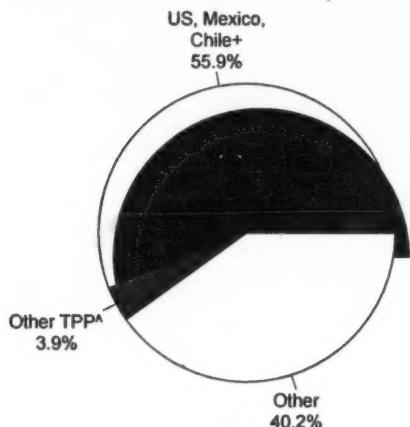
the latest year for which service export data are available, TPP countries were recipients of approximately 60% of Canada's service exports.

The TPP countries were the destination of almost 80% of Canada's goods exports in 2010



Source: Statistics Canada

The TPP countries were the recipient of around 60% of Canada's service exports in 2009\*



\* 2009 is the latest year for which data are available

+ Data for Peru not available separately and is not included

<sup>a</sup> Data for Brunei Darussalam not available separately and is not included

Source: Statistics Canada

However, in both cases most of the value of exports to the TPP was to countries with which Canada already has a free trade agreement (United States, Mexico, Chile, Peru). This may

lead one to ask why then it is so important for Canada to be included in the agreement. There are a number of reasons, but perhaps first and foremost is Canada's relationship with the United States, by far its most important trading partner. The document, *Outlines of the Trans-Pacific Partnership Agreement*, available on the website of the Office of the United States Trade Representative, suggests that the TPP will be a "landmark, 21st-century trade agreement, setting a new standard for global trade."<sup>4</sup> There are five features outlined:

1. Comprehensive market access (elimination of all tariffs and other barriers)
2. Fully regional agreement (to facilitate production and supply chains among TPP members)
3. Cross-cutting trade issues (regulatory coherence, competitiveness and business facilitation, concerns of small and medium-sized enterprises, economic development priorities)
4. New trade challenges (e.g., digital economy and green technologies)
5. Living agreement (to enable updating as new issues emerge or new countries join the partnership)

The scope of the agreement would appear to exceed that of NAFTA, such that if Canada is left on the outside, while the United States and Mexico are included in the TPP, Canada could lose its competitive advantage with respect to trade with those countries, at least until such time that Canada is able to join the Partnership.

In addition, Japan is an important trade partner as well, particularly for British Columbia,

<sup>4</sup> [www.usit.gov](http://www.usit.gov)

which shipped over 14% of its goods exports to that country in 2010 (Just over 2% of Canada's exports were destined for Japan in 2010). Perhaps even more important is the fact that the TPP hopes to attract more members over time. If Canada is denied entry for refusing to open up its protected agricultural sectors, it could find itself becoming less and less relevant on the world stage and the economic repercussions could be severe for exporting industries – countries within the TPP will have tariff free access to the markets of all its member countries, while those on the outside may still face barriers.

Given the export orientation of Canada's economy, free trade is certainly in Canada's best interest and the federal government has clearly indicated an interest in developing free trade deals. For example, Canada is currently negotiating a free trade deal with the European Union and recently introduced legislation to implement free trade agreements with Jordan and Panama. In Foreign Affairs and International Trade Canada's news release announcing the introduction of the legislation, Gerry Ritz, the Minister of Agriculture and Agri-Food, pointed out that "Free trade agreements also bring real benefits to Canadian farmers and our entire agriculture industry. These trade agreements will open markets and create new opportunities for our farmers to boost their bottom lines."<sup>5</sup> The government recognizes that free trade will benefit farmers, yet its steadfast determination to protect the supply managed sectors appears to be at odds with the goal of free trade and indeed, is the antithesis of free trade.

<sup>5</sup> "Canada Introduces Legislation to Implement Free Trade Agreements with Jordan and Panama," November 15, 2011. ([www.international.gc.ca](http://www.international.gc.ca))

In 2010, there were just over 16,000 farms in the supply managed sectors in Canada (approximately 12,000 dairy farms and 4,000 poultry and egg farms), representing slightly over 9% of all Canadian farms.<sup>6</sup> Total cash receipts from the products of the supply managed sectors amounted to 19% of Canada's total farm cash receipts in 2010.<sup>7</sup> The entire agricultural and food manufacturing sectors are responsible for approximately 3% of Canada's GDP, which would imply that the supply managed sectors account for only a small fraction of the country's total output. Given the small size of the sector and the potential cost of being left out of the trade deal, it begs the question: Is it worth protecting Canada's supply management system if it means being excluded from the TPP?

One point to consider is that Canada has managed to maintain its supply management system despite coming to an agreement on a number of trade deals, including NAFTA. While true free trade would be the best option, one has to realize that most trade deals include compromises that do not necessarily fit in with the concept of free trade. It is possible that other countries involved in the TPP may also want to protect certain sectors of their economy, such that Canada may be able to keep its supply management system. While this would not be an ideal situation, even a watered-down agreement would still be a major step forward.<sup>8</sup>

<sup>6</sup> Source: Statistics Canada, CANSIM table 002-0048.

<sup>7</sup> Source: Statistics Canada, CANSIM table 002-0001.

<sup>8</sup> For a more detailed discussion of the issues surrounding the supply management system, see the August 2008 *Exports* article, "Milking the System: Is Canada's Supply Management System an Impediment to Free Trade?"

